International soars on 1 move

By Curtis Vosti

International money managers received more than $4.5 billion in new business during the third quarter — more than 90% of it from the California Public Employees' Retirement System — making it far and away the most lucrative market for new business during the three-month period.

Domestic equities drew $1.3 billion and fixed income drew just a shade more than $1 billion in new allocations during the third quarter.

Domestic asset allocators — including tactical and strategic asset allocators — and balanced accounts each drew a reported $747 million, and real estate investors placed $288 million.

The figures were drawn from reports of new manager hires listed in *Pensions & Investment Age* during the third quarter. There were other hirings reported but not itemized, such as the $900 million in equity assets to be doled out among seven managers by the State of Alaska Trust Funds. While there most likely were other unpublicized hirings, the tabulation gives insight into the third-quarter movement of vast amounts of institutional money.

The movement toward international investing should continue, according to Ed Baker, director of marketing at BARRA, the Berkley, Calif.-based consulting firm.

Public pension funds — which have been leading the latest push overseas — tend to have to go through lengthy processes before they can commit a sizable sum to a new investment strategy, Mr. Baker said, and the rush to international stocks probably won't abate because of that lengthy process.

Almost $1.5 billion in the third quarter was reported placed in indexed accounts, $1.05 billion of that in an international indexed account placed by the California Employees' fund, managed by State Street Bank and Trust Co., Boston.

Eleven other international managers hired by the California fund received amounts ranging from $100 million to $500 million. First Chicago Investment Advisors, which picked up $100 million from the fund, added $71 million from three other clients during the third quarter, making it one of the most successful managers in drawing new clients for the quarter.

The California allocation also helped some of the quarter's recipients of the most new institutional money — solely because of the size of the fund's accounts.

Most new accounts* 3rd quarter 1988

Firm	New accounts
Wells Fargo	6
Copley Real Estate	5
First Chicago	4
The Common Fund	4
Invesco	4

* As reported in *Pensions & Investment Age*

Most new assets* 3rd quarter 1988

Firm	$ millions
State Street Bank	1,250
Wells Fargo	660
First Investment	650
Baring International	515
Warburg	500
Fiduciary Trust	500

Warburg Investment Management International and Fiduciary Trust Co. International, both of New York, made the list of top recipients of institutional money with a one-shot $500 million account to each from California. Baring International Investment Ltd., Boston, picked up $500 million from California for a total of $515 million in new money for the quarter. State Street Bank added a $200 million account from the James River Corp. of Virginia, Richmond, to California's $1.05 billion.

Wells Fargo Investment Advisors placed the most new reported and confirmed accounts, with six, and also placed among the managers with the most new assets reported, with $660.4 million (without the benefit of an account from the California fund) reported from four of those new clients. Two new clients confirmed the placement with Wells, but declined to disclose figures.

First Investment Management, Oklahoma City, was tabbed by the Oklahoma Public Employees' Retirement System for a $650

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Wedtech union officials indicted

By Marcia Parker

NEW YORK — A federal grand jury has indicted two officials of Local 875 of the Teamsters union on charges of taking payoffs from officers of Wedtech Corp., the military contractor at the center of a Pentagon scandal, and of fraud and embezzlement involving the Wedtech welfare fund.

The Elmhurst, N.Y., Teamsters local served as the sole and exclusive collective bargaining agent for production workers, drivers, helpers and warehouse employees for Wedtech. The local administered the Louis Hirsch Memorial Welfare Fund, the employee welfare benefit plan for Wedtech production employees.

The grand jury indictment charges two pension fund business officials — Richard Stolfi and Frank Sasalino — with taking more than $100,000 in payoffs from Wedtech officers and employees to keep labor peace and negotiate collective bargaining agreements favorable to Wedtech; concealing thousands of dollars in kickbacks; and embezzling money from the welfare fund.

In August, a federal jury convicted Rep. Mario Biaggi, D-N.Y.; John Mariotta, Wedtech's founder and at various times its president, chief executive officer and chairman of the board; and three others of racketeering in the Wedtech corruption scandal. They were convicted of dispensing millions in bribes to win no-bid government contracts set aside for minority-owned businesses.

The Teamsters indictment charges that named but unindicted co-conspirators Mr. Mariotta; Fred Neuberger, who served at various times as vice president in charge of marketing, president and chief operating officer, chief executive and chairman of the board; and others "illegally diverted funds from Wedtech" and made "illegal payments" to officials and representatives of labor unions, welfare funds and others, including Local 875.

Mr. Stolfi was employed by and associated with Local 875, holding at various times the positions of secretary-treasurer, trustee and administrator. He also was associated with the welfare fund, and participated directly and indirectly in the affairs of both the local and the fund.

Mr. Sasalino also was employed by and associated with Local 875, holding the position of business agent. As a result of that position, he was associated with the welfare fund and participated directly and indirectly in the affairs of it and the local.

According to the indictment, Messrs. Stolfi and Sasalino "would and did extort, receive and obtain money and other things of value from Wedtech for their benefit by agreeing to use their influence and control over Teamsters Local 875 and the Welfare Fund to provide labor peace at Wedtech's manufacturing plants."

In addition, the grand jury alleges the two exercised influence and control over collective bargaining negotiations between Local 875 and Wedtech in such a way as to ensure the agreements entered between them would contain terms favorable to Wedtech.

The indictment also said Mr. Stolfi "would and did obtain money by deceiving and defrauding the members of Teamsters Local 875, the Welfare Fund and the Great American Insurance Co. by filing false and fraudulent insurance claims." The indictment also alleged Mr. Stolfi embezzled money from the welfare fund through the receipt and concealment of kickbacks on purchases of dental equipment and supplies by the welfare fund.

Diamond Star dazzles

Leaseback deal is largest this year

By Marcia Parker

NORMAL, Ill. — The $500 million sale-leaseback of a newly opened Midwest auto manufacturing plant operated by Diamond Star Motors is the biggest non-utility leveraged lease of the year.

The sale-leaseback of the central Illinois plant, which will produce 240,000 cars a year when it hits peak production, was completed in June. The plant, which is gearing up to full production, will have its grand opening next month.

Diamond Star is a joint venture of Chrysler Corp. and Japan's Mitsubishi Motors Corp.

Morgan Guaranty Bank and Japan's Mitsubishi Bank served as co-financial advisers to Diamond Star in structuring and sourcing the 25-year lease.

For Diamond Star, the lease financing made sense because it was low-cost financing with myriad tax benefits that will be useful to the investors. Because Diamond Star is a new concern, it will not be able to use the tax benefits for some time, so it made sense to look into a sale-leaseback and pass those benefits to investors.

The financing was structured with an equity portion provided by Mitsubishi and Chrysler entities and two debt tranches with different credit structures.

The largest piece of the debt financing was provided by the Export-Import Bank of Japan, the first time that institution participated in the debt portion of a U.S. leveraged lease.

The debt obligations of Mitsubishi Motors, which isn't yet a household name in the U.S. market, were guaranteed through a letter of credit from Mitsubishi Bank.

The rest of the debt financing was supplied through a private placement with a host of insurance companies led by John Hancock Insurance Co. Other investors include Aetna Life & Casualty Co.

Because this is a joint venture, the lease was carefully structured to ensure that if certain changes occur in ownership positions, the lease financing package will remain in tact.

While the lease was cited by investment bankers as an interesting one, few copycat transactions are expected. The Diamond Star plant became part of the transition property designated by Congress under rules that accompanied the 1986 tax reform law, thus making it eligible for investment credits and accelerated depreciation.

Chrysler and Mitsubishi each hold 50% equity interests in Diamond Star Motors, which was incorporated in October 1985; the partnership between the automakers dates to 1970.

The plant involved in the sale-leaseback is about 2 million square feet and is situated on 636 acres on the west side of Normal. The first automobile to roll off the assembly line is a new front-wheel drive, two-door sports specialty car.

Later, the plant will begin producing a four-door, compact sedan. Half of the cars manufactured at the plant will be sold by Chrysler and half by Mitsubishi Motor Sales of America. ■

Diamond Star Motors — a joint venture of Chrysler Corp. and Japan's Mitsubishi Motors Corp. — arranged a $500 million sale-leaseback of its auto manufacturing plant near Normal, Ill. The arrangement is the largest non-utility deal so far this year.

PORTFOLIO MANAGEMENT

Consultant sees many bears

Research finds few opportunities

By Barry B. Burr

CHICAGO — Few asset categories currently appear attractive to Stratford Advisory Group Inc., according to the consulting firm that recommends asset allocation the old-fashioned way, based on fundamental research.

Of 28 institutional asset categories, Stratford recommends underweighting 18 (including developmental and leased real estate and foreign equities), overweighting only four (including cash and non-dollar bonds) and weighting neutral the other six (including timberland and both fixed-income and equity index funds).

Stratford's recommendations remain substantially unchanged from those of August 1987. Then the firm was optimistic about small-capitalization stocks, a group that was hit hard two months later in the stock market crash. In November, in a special post-crash report, it recommended clients underweight small-cap stocks, just as, it turned out, they began to recover.

Stratford, which doesn't manage money, issues asset allocation recommendations every six months to about half of its 25 retainer clients, including Knight-Ridder Inc. and Fairchild Industries Inc., whose assets total some $4 billion to $5 billion.

"When there are events like the October crash, then we will re-evaluate things," said David Kudish, president. Accordingly, last November Stratford issued a special allocation report.

The firm's allocation recommendations are based on research of broad economic, political and social trends.

"In the final analysis we apply common sense," said Mr. Kudish. After analyzing data and subjective analysis of trends, he said the group asks, "Does it make sense?"

He contrasts Stratford's analytical decision-making process with active asset allocation techniques, such as the now-popular tactical asset allocation. TAA makes shifts frequently, typically monthly, relying mainly on mechanistic signals, based on the relative performance among asset classes.

Stratford calls its recommendations strategic asset allocation. Decisions are the outgrowth of long-range studies of potentially major socioeconomic issues. Such long-range research often has little immediate investment implication, Mr. Kudish acknowledged. But he said it is invaluable in forcing Stratford to look for potential trends in the investment markets.

"One thing Stratford and David (Kudish) try to do is to get as many inputs as possible" in their evaluation of the markets, said William H. Buckland, who until May was director-business development at Fairchild Industries Inc., Chantilly, Va. As such, he oversaw its treasury department and was a member of its pension committee.

"So they are not regurgitating information already on the Street," added Mr. Buckland, who now is chairman of Metro Credit Corp., McLean, Va. "They are widely read and talk to a number of different people. They have a good sense of history to put the market in perspective."

Mr. Buckland said he appreciates Stratford's "willingness to go out on a limb and give very specific recommendations."

Five of the firm's six professionals contribute to research studies. Stratford now is preparing a study of the Latin American debt problem.

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FEATURE

Retirees and health

Voluntary plan can be funding answer

By Harvey Kesselman and Bruce Zimmerman

Much has been written about the lack of an appropriate tax-advantaged vehicle for prefunding retiree medical benefits. Options, such as 501(c)(9) trusts, 401(h) accounts and corporate-owned life insurance arrangements, have been suggested and often rejected because of their limited ability to provide a tax-free buildup of assets. A solution is to fund these benefits through a qualified defined benefit pension plan.

This funding can be accomplished by the plan sponsor replacing the current employer-paid medical plan with a voluntary retiree medical plan. The plan would would be funded through contributions made by the employee.

At the same time, the company would increase the benefit under its defined benefit plan to provide the retiree with sufficient money to pay the voluntary premium.

Thus, the benefit would be funded through the defined benefit plan and would begin when an employee retires and has attained a specific age or number of years of service. Additionally, the benefit would be structured to be reduced when the retiree becomes eligible for Medicare, much like a level income option in a pension plan integrates with Social Security.

Because the amount will be coming from a defined benefit plan, it will be taxable to retirees when they receive their monthly benefits.

Thus, the retiree will be contributing after-tax dollars to the medical plan.

Among the advantages of this program are:

- the ability to pre-fund on a tax-deductible basis;
- the tax-free accumulation of investment earnings;
- the use of excess pension assets to help fund and expense retiree medical benefits;
- a possible continuing reduction of expense if investment earnings offset costs, which has been the case historically in pension funding;
- a cap on costs of post-retiree medical benefits;
- flexibility for employees to use the additional benefits as they see fit;
- investment and administration of medical benefit funding through the pension plan; and
- use of the Pension Benefit Guaranty Corp. insurance program to protect these benefits.

The disadvantages are:

- a greater level of vested benefits for employees who leave employment prior to the age at which they otherwise would be entitled to retiree medical benefits;
- a tax to the retiree on the benefit payments used to fund the voluntary medical benefit plan;
- cash needed to pre-fund the benefits;
- use of the extra benefits by employees for other than medical coverage; and
- a possible adverse impact on PBGC premiums and level of liabilities.

These additional benefits would be paid to the employees directly from the defined benefit plan. The plan, accordingly, would have to adhere to requirements of the Employee Retirement Income Security Act and the Omnibus Budge Reconciliation Act — and would be permitted a tax deduction for the contributions to fund the appropriate benefit levels.

Furthermore, all earnings would accumulate on a tax-free basis until actually paid out.

Any surpluses now in the plan would be used to cover the additional liabilities attributable to the newly established benefit. To the extent the surplus, or surplus cushion (essentially 150% of accrued liabilities) is not eliminated, no tax deductible contribution could be made to the plan. After any surplus is used, contributions would become deductible.

The long-term cost of the program would decrease as the fund accumulates investment earnings on a tax-free basis. Also, the sponsor could completely fund effects of future medical trends without having to be concerned with the limits imposed by a 501(c)(9) trust.

Because of previous commitments, employers possibly could establish the voluntary plan for only new employees. Depending on legal precedent, corporations might have to continue to pay all retiree medical benefits under their current arrangements for retirees and current employees, making it unlikely they also could be included in a voluntary scheme.

Many plan sponsors have been seeking a way to use excess assets in their pension funds. Now, a sponsor can take the excess funding out only by terminating the defined benefit plan, subject to being taxed on the reversion at the sponsor's normal corporate tax rates, in addition to paying an excise tax of 10% of the reversion.

By implementing this program, these funds can be used without terminating the plan or facing other adverse tax consequences. Additionally, the excess assets can:

- be used to fund retiree medical benefits;
- continue to accumulate tax-free until needed;
- no longer be used against the sponsor to help finance a hostile takeover;
- continue to be managed and invested in the pension fund; and
- cushion against the risk of future balance sheet liabilities.

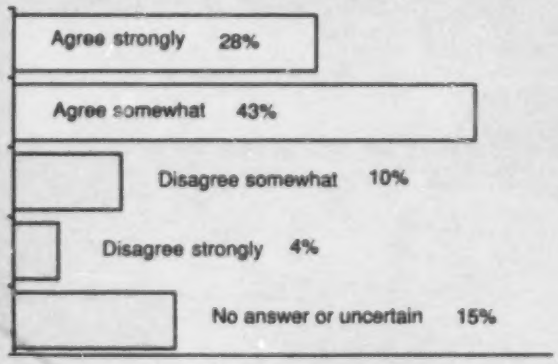
The Financial Accounting Standards Board expects to issue an exposure draft by year end requiring liability and expense be shown on an accrual basis for retiree medical benefits. Now, cor-

Continued on page 15

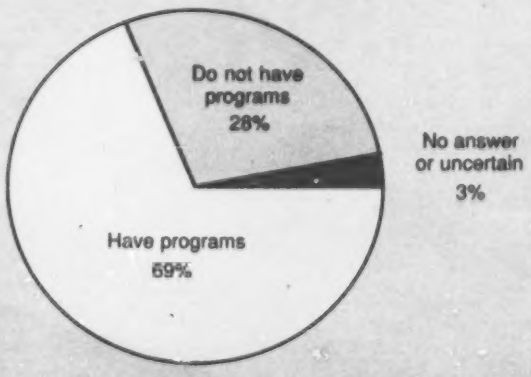
Bruce Zimmerman, left, is consulting actuary and Harvey Kesselman is vice president at Miller, Mason & Dickenson Inc., Conshohocken, Pa.

This is the first of two articles. The second, to be published Oct. 17, will explore more specific issues in paying retiree medical-care benefits through a defined benefit pension fund.

Do you favor use of pension surpluses to fund retiree health-care benefits?



Corporate practices on paying retiree health-care benefits



Source: Greenwich Associates, Greenwich, Conn., survey of 1,003 companies

Many bears

Continued from page 14

Almost two years ago the firm studied the implications of acquired immune deficiency syndrome, specifically noting the potential impact on insurance companies, the health-care system and employment practices.

Such reports, Mr. Kudish noted, don't necessarily produce an immediate call to shift into or out of an asset class. But they raise issues the firm will continue to analyze.

In its latest recommendation, grouped in five categories, Stratford views as:

- Very attractive: no asset classes;
- Attractive: Cash, non-dollar bonds, high-yield large-capitalization stocks and convertibles;
- Neutral: Large-cap growth stocks, equity index funds, bond index funds, intermediate high-quality non-callable bonds, immunized bond portfolios and timberland;
- Unattractive: Contrary value-oriented stocks, small-cap growth stocks, high-tech stocks, European equities, Pacific rim (excluding Japan) equities, venture capital, long-term high-quality non-callable bonds, intermediate-term zero-coupon bonds, existing real estate, farmland, oil royalties and precious metals; and
- Very unattractive: Japanese equities, developmental real estate, leveraged buy-outs, junk bonds, risk arbitrage and long-term zero-coupon bonds.

Explaining some of the recommended allocations, Mr. Kudish said cash, although now rated as "attractive," probably would never appear "very attractive" because of its potentially limited earning power, compared with stocks or bonds, which can return 30% or more in a year.

Stratford ranks non-dollar bonds as attractive because of the firm's pessimism on the trade and budget deficits. Those deficits, he said, mean the Federal Reserve Board "has to try to maintain interest rates at a higher spread than those in Japan, the U.K. or Germany to keep the market attractive to investors."

The firm recommends underweighting small stocks, even though "we think the relative valuation is there," he said. "We're concerned about who's buying — mutual funds, pension funds or individuals."

Although pension funds appear to be buying more small-cap stocks, he said individuals, whether on their own or through mutual funds, aren't and "have pretty much left the market."

Without individuals, he said he didn't think institutional investors, namely pension funds, alone could stem the growing pressure on small-cap prices.

"Because of the thinness (in trading) of the over-the-counter market since the crash, we want to be a little late rather than early" in moving heavily into small-cap stocks, he added. "You have time before you are compelled to buy," about six months to a year.

"I think if the market gets kicked one more time, small caps will get kicked worse," he added. "At that time, we would be interested in buying."

The prospect of 1992, when trade and other economic barriers will fall within the European Community, doesn't make Mr. Kudish sanguine. The situation reminds him of last year's Big Bang in London, when securities market regulation was eased. "Every investment banking firm licked their chops; they couldn't wait to get in," he said. "Within six months many of these guys lost their shirts."

In 1992, he said the new competition will promote economic Darwinism, making it possible many firms will be unable to survive. ■

Retiree

Continued from page 14

porations footnote only their annual cash outlay.

The accrual of the expense and liability and the associated financial statement impact most likely will be determined in a manner similar to FASB 87, the pension accounting rule. This suggests any additional accruing liability incurred through the increasing of benefits under the defined benefit plan would be incurred anyway.

Because the FASB requirements for accruing retiree medical liability will not become effective until 1992, however, by adopting this program now, recognition of these liabilities will occur at a much earlier date. On the flip side, the long-term accrued liability would be lower because of the buildup of earnings through the pension plan. Under FASB 87, as well as the expected rules for accruing liability of retiree medical plans, the largest offset to expense comes from the expected earnings of the assets. The tax-free buildup of the assets will reduce significantly the long-term accrued liability and financial statement impacts for these benefits.

By making the current retiree medical plan voluntary and employee-paid, there no longer would be an expense item for the plan. The accrued medical liability would be shared under the defined benefit plan and could be lower than the currently defined retiree medical plan expense because liabilities could be limited.

Because the benefit would be defined, it would not necessarily need to be the full amount of the medical plan premium. This amount could be less than or equal to what was needed under the retiree medical plan.

The new FASB rule is expected to require the recognition of a liability, most likely the unfunded accrued liability on the balance sheet for retiree medical benefits. The buildup of assets in the defined benefit plan and current surplus assets can reduce significantly the net liability the company must report. ■

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Candidates

Continued from page 2
organization.

The candidates' views were contained in written responses to questions posed by the United Shareholders Association, a shareholder rights group founded by Texas oilman T. Boone Pickens.

Mr. Bush said he supports measures to require a shareholder vote on adoption of poison pills and lucrative "golden parachute" management severance contracts.

Mr. Bush also said the payment of "greenmail" by corporate managers to repel offers to shareholders is "particularly worrisome." Mr. Bush's statement is the first of his campaign on the issues of shareholder rights and the market for corporate control.

Legislation to require shareholder approval of poison pills and golden parachutes, institution of a confidential ballot in corporate elections, banning greenmail payments, reforming the corporate proxy system and mandating a one-share/one-vote guarantee for publicly traded stock is gaining support in Congress.

In June, corporate management interests withdrew their support for a tender offer bill on the Senate floor after a strong show of support for a series of shareholder rights amendments. Action on the bill was suspended, but the issues are likely to be addressed again in the next Congress.

Mr. Bush said he is skeptical of assertions by corporate managers that defensive tactics, such as poison pills and greenmail, are needed to maintain long-term development objectives.

Noting a company's stock price is a reflection of publicly available information, he added: "Sometimes it seems that managers use these tactics to save themselves from the competitive pressures of the market for corporate control, not to protect the interests of the shareholders. Greenmail is particularly worrisome — it strikes me that when managers pay greenmail, they might be violating their duties to the stockholders."

At the same time, however, the vice president said he was hesitant to "criticize some of these devices too strongly." He indicated certain defensive tactics might be appropriate where a company's stock price does not reflect still-secret research.

Mr. Bush said he is reluctant to have Congress enact legislation that would overrule the growing role of the states in regulating corporate takeovers.

"There is much to be said for encouraging states to compete to determine which regulations are best for shareholders — and lower the costs for corporations to raise capital," he said.

"Many of these laws are very new. It is not clear yet how they affect hostile tender offers in practice," he said. While they may appear to "unduly burden interstate commerce," Mr. Bush said, "a target company's management must consider other factors. Remember, if managers arbitrarily refuse an offer, they may be breaching a fiduciary duty to shareholders."

He said he would "ask the Securities and Exchange Commission to propose new legislation if these state laws do, in practice, restrict the interstate securities markets."

During the campaign, Mr. Dukakis has said "mergermania" is "tearing companies apart."

He has been an active ally of corporate America, helping companies in his home state fend off unwanted suitors. When Revlon Group made a hostile bid for Boston-based Gillette Co., Mr. Dukakis played a key role in getting the state Legislature to enact an anti-takeover law. When Campeau Corp. pursued Federated Department Stores, a chain that includes a leading Boston store, he asked the Federal Trade Commission to review the acquisition.

Mr. Dukakis also has said corporate takeovers are part of the business of doing business, but corporate managers should understand their jobs do not come with a lifetime guarantee.

Mr. Dukakis has said he supports stronger enforcement of existing anti-trust laws, an increase in the SEC budget, a Senate bill to force raiders to make their efforts more public and that he would like to see a reduction of the 10-day period in which a company can acquire a block of another company's stock without disclosing whether it intends to attempt a takeover.

He said he opposes greenmail and using pension fund surpluses to repay debts incurred in takeover financing. ■

Partners sue

Continued from page 2
Founded in 1984 to market a quantitative equity strategy to pension sponsors, Brignoli, Curley & Roberts' assets under management have grown to some $826 million from 16 tax-exempt clients as of Jan. 1. Among its pension sponsor clients, as of the beginning of the year, are Eastman Kodak Co. and Westinghouse Electric Corp.

None of the three suits makes any allegations concerning client accounts. The same law firm, Reavis & McGrath of New York, is representing the plaintiffs in each of the suits. Arie E. David of New York, who has his own law firm, represents Mr. Brignoli.

Mr. David and Glen Banks, a Reavis & McGrath attorney, confirmed the suits. Both said action is pending in all three.

"The real issue is credibility with clients," said Ann Nichter, attorney and partner in Mr. David's firm. "And Mr. Brignoli has retained credibility with clients."

"I think what you've got is some people (the suing partners) who are a little envious," she added. "Now they're out on a street corner doing nothing."

The three retain their interests as limited partners in Brignoli, Curley & Roberts. According to their suit, Mr. Curley owns 22.38%; Mr. Karanfilian, 9.1%; and Mr. Roberts, 4.55%.

Brignoli & Curley Inc. is the sole general partner of Brignoli, Curley & Roberts and as such manages the firm.

Mr. Brignoli owns 50.1% of Brignoli & Curley and is its president and chief executive officer. Mr. Curley owns 49.9%.

"(Mr.) Brignoli makes the day-to-day business decisions for both BCI and BCR," according to the suit by the three partners.

Brignoli Models Inc. holds 53.97% of Brignoli, Curley & Roberts, according to the suit. Mr. Brignoli is a principal of Brignoli Models, a firm in which the suing partners have no involvement.

Brignoli, Curley & Roberts' revenue last year totaled $1.9 million, according to the suit. That revenue amounts to an average of 23 basis points, based on the firm's latest asset figures.

Mr. Curley, whose title was chief investment officer, oversaw trading for Brignoli, Curley & Roberts, which he left last January. From its founding until last November, Mr. Curley also served as Brignoli & Curley's president and chief executive office; Mr. Brignoli since has assumed both positions. Mr. Karanfilian left Brignoli, Curley & Roberts in December.

The firm follows an investment strategy developed and licensed by Brignoli Models.

According to their suit, the "plaintiffs have instituted this action to redress breaches of fiduciary duty by the corporate general partner, BCI, which have benefited its principal, (Mr.) Brignoli, at the expense of the partnership."

Brignoli

The plaintiffs seek the removal of the corporate general partner, which is controlled by Mr. Brignoli, or, dissolution of Brignoli, Curley & Roberts. In addition, they seek to recover unspecified financial claims and costs.

"Plaintiffs, on behalf of BCR, also seek damages for such breaches of fiduciary duty and an accounting with respect to BCR," the suit continued.

The suit states that "by June 1988, it had come to the attention of plaintiffs that (Mr.) Brignoli was abusing his position as the person controlling the corporate general partner (BCI) to benefit himself."

The suit goes on to state Mr. Brignoli refused a "demand," made June 15, to permit the plaintiffs to exercise their right as limited partners to inspect the books and records of Brignoli, Curley & Roberts.

"Since November 1987, the general partner, BCI, and the person who controlled it, (Mr.) Brignoli, continually have rebuffed attempts by plaintiff limited partners to obtain information concerning the finances of the partnership," according to the suit.

Also, the lawsuit stated that in the first half of 1988, Mr. Brignoli caused the firm to pay approximately $250,000 to Brignoli Models for trading audit services and another $175,000 for trading cost analyses.

"There was no need for BCR to pay $425,000 to Brignoli Models for such purported consulting services because numerous other companies that were not affiliated with (Mr.) Brignoli were capable of providing such services at a lower cost," the lawsuit stated.

"However, no bids were solicited."

Schools seeking

Continued from page 1
The Common Fund.

Few endowments now invest in leveraged buy-outs, largely because the amount they want to commit — from about $150,000 for small colleges to $10 million for large — could not provide them broad diversification in the asset class, said Mr. Keane.

The Common Fund helped set up Endowment Advisers of Fairfield in January to facilitate endowment investments in private markets. The name of the limited partnership is Endowment Partners 1.

Endowment Advisers established the new limited partnership to invest in seven leveraged buy-out funds that invest in a wide range of buy-outs, including Merrill Lynch Capital Partners, New York; Clayton & Dubilier, New York; and McCown de Leeuw & Co., San Francisco.

Believed to be the first program of its kind, the manager-of-managers setup will allow even small endowments broad diversification across leveraged buy-out investments. The partnership's first fund will total $125 million.

"They (endowments) want diversification away from the public securities market. Private market investments require a longer-term commitment and have a different pattern of price behavior than stocks and potentially much higher returns," Mr. Keane said. For instance, funds managed by the seven firms in the past have had annualized returns ranging from 74% to 160%.

"Prices paid today to acquire companies are somewhat higher, which will reduce the returns looking forward," Mr. Keane said. He still expects Endowment Partners 1 to earn 40% per year, however, because of their focus on smaller companies.

Forty-five institutions have expressed an interest in Endowment Partners 1, which is scheduled to close Oct. 15 and can only accept 99 participants. The second and final closing will be Dec. 31.

In addition to Mr. Keane, trustees of Endowment Advisers Inc. include Rodney H. Adams, Stanford University; William T. Spitz, Vanderbilt University; David K. Storrs, The Common Fund; David F. Swensen, Yale University; and John L. Temple, Emory University.

All the endowments of the trustees' universities are expected to participate in the fund, he said.

"For various types of private investment programs, 5% or a little more is certainly reasonable for endowments," Mr. Keane said.

"I think this will be the first in a series of private investment programs for endowments. We're already thinking about starting a venture capital investment pool in the first quarter of 1989 and an oil and gas investment program for 1989," said Mr. Keane.

The Common Fund, which has an endowment totaling $3.5 billion, invests mainly in publicly traded securities. It also has short-term investments totaling $7.5 billion.

They chose seven leveraged buy-out funds to make pure equity investments and one fund to make debt with equity investments. Assuming $100 million will be raised for the first fund, equity managers appointed will receive allocations of $7 million to $13 million each. Merrill Lynch Capital Partners (Capital Appreciation Fund II) and Clayton & Dubilier (Private Equity Fund IV), each will receive 13%. Gibbons, Green van Amerongen (Fulcrum IV) and Morgan, Lewis, Githens and Ahn, (MLGA Fund L.P.) will be allocated 10% each. Brentwood Associates (Brentwood Associates Buyout Fund), McCown de Leeuw (McCown de Leeuw & Co. II, L.P.) and Neuberger & Berman (NLF Partners), each will receive 7%.

Private placement debt securities will comprise one-third of partnership assets and will provide approximately 12% current yield, plus equity participation. The cash flow is important to most endowments.

The manager of the debt portion is Trust Co. of the West (TCW Special Placement Fund III).

The fund will invest mainly in small to midsized companies. "We think continuing opportunities are more likely to be in smaller and midsize companies. Megadeals are getting scarcer and scarcer. Also a lot of competitive bidding on those megadeals drives prices up and returns down. Smaller deals are negotiated usually — not put out to bid," Mr. Keane said.

All transactions will be friendly, with a long-term growth orientation. The goal is to improve operations and boost profitability, not to engage in "bust up" deals involving large asset sales.

Future leveraged buy-out funds probably will feature a different cast of managers, Mr. Keane said. The partnership looked at 30 different firms before selecting.

For Endowment Partners 1, Fairfield Advisers, Fairfield, Conn., will act as managing general partner; Amherst Capital Financing, Springfield, Mass., will be general partner. Both will be passive investors. Colleges, universities and independent schools will invest as limited partners.

The fund will have a 10-year term with periodic distributions of all income and sale proceeds.

Endowment Advisers' first private markets program was in commercial real estate. The program's first closing was in July, when it raised $250 million from 60 colleges. In the second closing slated for the end of October, Mr. Keane expects to raise another $200 million from about 80 colleges. By year end, the program should have raised $500 million to $600 million, "which is quite significant," he said. Six managers run the real estate assets. ■

International takes off

Continued from page 3
million balanced account. The sole assignment put First Investment among the leaders in assets placed.

The sheer size of the California employees' allocation overshadowed other money managers, and styles, which found success in the third quarter.

Copley Real Estate Advisors, Boston, landed five new accounts totaling $68.5 million.

Invexco Inc., Houston, nabbed four clients in its oil and gas exploration endeavor, three of whom enumerated for *P&I Age* $94 million in new investments.

The Common Fund, Fairfield, Conn., also landed four new accounts for the quarter, receiving $25 million for real estate investment trusts, $2.5 million for a South Africa-free bond portfolio and $3 million for a fixed-income account.

Real estate should continue to be an area of strong attraction, with most new investors seeing it as a diversification play and investing directly rather than through pooled accounts, BARRA's Mr. Baker said. ■

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Incentive fees burgeon

Goodyear targets equity managers

By Barry B. Burr

AKRON, Ohio — The Goodyear Tire & Rubber Co. pension fund wants to put all of its equity managers on performance-based fees by the end of the year, according to corporate executives.

The company's program is the latest by a pension fund as interest among plan sponsors in such fee arrangements appears to be growing.

The $3.2 billion Shell Oil Co. pension trust has hired its first international manager on a performance-based fee schedule and plans to adopt such schedules for almost all of its asset classes, said Leonard S. Chaikind, administrator-Shell Pension Trust/Provident Fund (*See related story*).

The $2.73 billion Xerox Corp. pension fund also is considering performance-based fees, said Jainel Buell, manager-trust investments. She declined to discuss details.

Executives at Wilshire Associates, Santa Monica, Calif., a major advocate of performance-based fees, also see increasing interest, according to Stephen L. Nesbitt, vice president. One-third of the firm's 60 tax-exempt clients use performance-based fees for some portion of their assets, he said.

Wilshire is assisting Goodyear in devising its new fee arrangement.

Goodyear will use the Standard & Poor's 500 stock index as a performance benchmark, rather than designing customized benchmarks for each manager's investment style, said Duane H. Smith, manager-benefits controls and investments.

The amount affected by Good-year's move is unclear. The pending termination of a salaried plan would reduce Goodyear's total pension assets to $641 million from the $1.57 billion, reported at the beginning of the year, based on a company filing with the Pension Benefit Guaranty Corp. But Mr. Smith said Goodyear would have some $900 million in assets remaining after the termination. He declined to elaborate.

With 55% of the fund allocated to equities as of

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Fund administrators at Goodyear Tire & Rubber Co. want to implement a performance-based fee schedule for all equity managers . . .

. . . while Shell Oil is looking at plans to adopt performance-based fees for all asset classes, including its new international manager.

Shell plan opens with international

By Marlene Givant Star

HOUSTON — The $3.2 billion Shell Oil Co. pension trust is embarking on its first formal international investment program, and also plans to adopt performance-based fees for almost all of its asset classes, according to Leonard S. Chaikind, administrator-Shell Pension Trust/Provident Fund.

The Provident Fund is a combination of savings programs totaling $3.4 billion.

Shell, although late to enter the international arena, is a pioneer in many ways. Besides planning performance-based fees for its international managers — one of a very few plans to do so — Shell eventually will manage the cash portion of its international portfolio in-house, as it does for domestic investments.

In addition, Shell has started lending global securities through its new global custodian, Boston Safe Deposit & Trust Co., Boston (*See related story*).

Shell also is the first U.S. pension fund to hire AIG Global Investors Inc., New York; the 2-year-old firm received $50 million for international equities. Frank Russell Co., Tacoma, Wash., assisted in the search.

The firm was funded in one fell swoop through a program trade by Shell and future international managers will be funded in the same manner. Assets came from reductions in three domestic equity accounts Mr. Chaikind would not identify, leaving Shell's overall equity allocation unchanged.

The current asset mix is 52.2% domestic stocks; 1.6% international stocks; 13% real estate; 32.9% bonds; and 0.3% cash. By the end of next year, the fund expects to have an international stock allocation of between 5% and 10%. In 1990, fund officials plan to boost that equity exposure and diversify into foreign bonds.

On the performance-fee front, Shell has placed three equity managers under a fulcrum fee structure in which the firms will get a percentage reward over their minimum fee for adding value over their benchmarks.

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Global lending gathering speed

By Marlene Givant Star

Global securities lending activity has mushroomed in the past year with at least 21 U.S. tax-exempt funds lending Japanese stocks.

That compares with four funds a year ago.

The business is enormously profitable because demand for the securities far exceeds supply. Funds are attracted to securities lending globally because the spreads can be up to six times the spreads on domestic loans, exceeding 300 basis points. Funds use the gains to offset the high costs of investing overseas.

Funds participating in global securities lending now include American Information Technologies Corp., Chicago; the Illinois Municipal Retirement Fund, Chicago; Shell Oil Co., Houston; and such global lending pioneers as the College Retirement Equities Fund, New York; The Common Fund, Fairfield, Conn.; the Harvard University endowment, Boston; and the San Francisco City and County Employees' Retirement System.

At least five global custody banks, including Bankers Trust Co., New York; Boston Safe Deposit & Trust Co., Boston; Chase Manhattan Bank, New York; Northern Trust Co., Chicago; and Harris Trust, Chicago; offer the service.

Chase, the second-largest global custodian, just started lending Japanese equities in September. Officials at State Street Bank and Trust Co., Boston, the largest global custodian, would not return phone calls.

Many banks are working to introduce countries besides Japan, where demand is hottest now. Boston Safe plans to begin lending Hong Kong stocks in two weeks and British stocks in a month. In 1989, it will work on its own foreign bond lending program and might begin lending French securities. "As Sherman

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